Lee County Port Authority

Component Unit Financial Report

LEE COUNTY PORT AUTHORITY

Years Ended September 30, 2007 and 2006

Lee County Port Authority
Lee County, Florida

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LEE COUNTY PORT AUTHORITY

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ROBERT M. BALL, A.A.E.
EXECUTIVE DIRECTOR

DAVID M. OWEN
PORT AUTHORITY ATTORNEY

February 1, 2008

Dear Friends:

I am pleased to present the Lee County Port Authority's financial results for the fiscal year ending September 30, 2007.

Fiscal year 2007 was the fifth consecutive record-breaking year of passenger travel at Southwest Florida International Airport. Total passenger numbers were 8,071,654, an increase over the prior year of 6.87%, or 518,629 people. According to the U.S. Department of Transportation, overall domestic passenger traffic for the same period was up by only 3.2%. Total operating revenues were $84.5 million, an increase over the prior year of $2.7 million, and primarily attributed to our restaurants, retail shops, parking lots, and rental cars. Operating expenses before depreciation were $60.8 million, an increase of $6.9 million for the same period. Increases in this category were directly related to personnel, insurance, utilities, and maintenance items.

This past fiscal year was the second complete year of operations in our new terminal. Building upon the lessons learned from the first year of operations and applying them to the 2007 budget, we gained a better understanding of our needs. As a result, operating expenses were below budget by 1.26%. These factors have resulted in a combined refund of $4.78 million to our airline partners and a net cost per departing passenger of $6.44.

The rehabilitation of Runway 6/24 and the supporting taxiway system project at Southwest Florida International Airport was completed in 2007. This project included the conversion of the existing taxiway into a temporary runway in order to rehabilitate the primary runway. The project was the first of its kind for a medium-hub single runway airport in the continental United States, and it was awarded the "2007 Outstanding Commercial Service Airport Project of the Year" by the Florida Department of Transportation. Other notable awards the airport received were "Best Concession Award" by Airport Revenue News and "Best Convenience Retail Award" by Airports Council International. This past year also brought new and expanded air service to our airport, including service to Munich, Germany; White Plains, NY; and Kansas City, Missouri.

The Port Authority also remains committed to the success of Page Field General Aviation Airport. Recently completed projects include a new parallel taxiway and infrastructure improvements to attract new tenants, which will complement the future construction of the General Aviation terminal and associated apron. The design is complete on these two projects and we are actively seeking both federal and state funding.

SOUTHWEST FLORIDA INTERNATIONAL AIRPORT
11000 Terminal Access Road, Suite 8671 • Fort Myers, Florida 33913-8899
www.flylcpa.com

We are extremely pleased with the results of the past fiscal year and have settled in nicely to the new terminal. For the upcoming year, we look forward to serving the residents, visitors, and business community at both Southwest Florida International Airport and Page Field General Aviation Airport.

Sincerely,

LEE COUNTY PORT AUTHORITY

Robert M. Ball, A.A.E.
Executive Director
Enclosure

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

The Board of County Commissioners
Lee County, Florida:

We have audited the accompanying financial statements of the Lee County Port Authority (a blended component unit of Lee County, Florida), as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Lee County Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Port Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Lee County Port Authority, as of September 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 1 through 6 is not a required part of the financial statements but is supplementary required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Lee County Port Authority's financial statements. The letter of transmittal and the supplemental schedules are presented for the purposes of additional analysis and are not a required part of the financial statements of the Lee County Port Authority. Such additional information has not been subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

KPMG LLP

January 31, 2008
Certified Public Accountants

Management's Discussion and Analysis
(unaudited)

This discussion and analysis is intended to serve as an introduction to the Lee County Port Authority's (Port) financial statements for fiscal years ending September 30, 2007 and 2006. The information here should be taken in conjunction with the financial statements, footnotes and supplementary information found in this report.

Financial Highlights and Summary

Table 1 reflects a summary of net assets for 2007, 2006, and 2005.

Table 1
Summary of Net Assets
September 30, 2007, 2006 and 2005
(000's)

	2007	2006	2005
Current and other assets	$166,906	$144,755	$144,865
Capital Assets	701,387	682,416	649,238
Total assets	868,293	827,171	794,103
Current liabilities	38,250	23,055	29,025
Non-current liabilities	381,136	392,778	393,838
Total liabilities	419,386	415,833	422,863
Net assets:			
Invested in capital assets, net of related debt	343,304	327,225	293,883
Restricted	27,891	16,945	13,473
Unrestricted	77,712	67,168	63,884
Total net assets	$448,907	$411,338	$371,240

Summary of Net Assets Analysis

In 2007, total assets increased $41,122,000. This increase was primarily due to an increase in prepaid insurance of $1,990,000, cash and cash equivalents with fiscal agent of $19,082,000, and a net increase in total capital assets of $18,971,000. In 2007, total liabilities increased $3,553,000. This increase was primarily due to a decrease in contracts and accounts payable of $7,850,000, an increase in accrued liabilities of $12,097,000, an increase in refunds and rebates of $3,461,000, and a decrease in notes payable of $4,158,000.

In 2006, total assets increased by $33,068,000. This increase was primarily due to an increase in receivables of $4,029,000, a decrease in cash and investments of $2,155,000, a decrease in prepaid insurance of $1,643,000, and a net increase of capital assets of $33,178,000. In 2006, total liabilities decreased $7,030,000. This decrease was primarily due to a decrease in contracts and accounts payable of $6,380,000.

Table 2 reflects a summary of revenues, expenses, and changes in net assets for 2007, 2006 and 2005.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2007, 2006 and 2005
(000's)

	2007	2006	2005
Revenues, net:			
User fees	$42,858	$43,900	$31,499
Rental cars	16,255	16,114	14,418
Parking	14,788	13,819	10,273
Other, net	10,650	8,000	8,083
Total revenues, net	84,551	81,833	64,273
Expenses:			
Salaries, wages and benefits	26,056	22,808	19,675
Contractual services, materials and supplies, Utilities, Repairs and Maintenance	28,653	26,402	16,670
Depreciation and amortization	17,446	16,334	9,983
Other	6,128	4,749	3,311
Total expenses	78,283	70,293	49,639
Operating income (loss)	6,268	11,540	14,634
Non-operating revenues (expenses):			
Investment earnings	6,712	5,919	1,823
Interest expense	(22,703)	(23,127)	(4,408)
Passenger facility charges	16,858	15,567	15,616
Other revenues (expenses)	715	4,840	1,340
Total non-operating	1,582	3,199	14,371
Income before capital contributions	7,850	14,739	29,004
Capital contributions	29,719	25,359	12,434
Increase in net assets	37,569	40,098	41,439
Beginning net assets	411,338	371,240	329,802
Ending net assets	$448,907	$411,338	$371,241

Summary of Revenues and Expenses Analysis

In 2007, income before capital contributions was $7,850,000, a decrease of $6,889,000. This was due, in part, to a decrease of $1,042,000 in user fees due to an increased refund of airline fees for the participating airlines. Other increases in operating revenues included an increase of $1,092,000 in airport concessions, an increase of $969,000 in parking, and a $141,000 increase in rental cars. Operating expenses increased in 2007 by $7,990,000, including a $3,248,000 increase in personnel, a $955,000 increase in utilities, an increase of $1,919,000 in insurance, and a $1,112,000 increase in depreciation. In addition, net income decreased due to a one-time Transportation Security reimbursement of $4,000,000 in 2006.

In 2006, income before capital contributions was $14,739,000, a decrease of $14,265,000. This was due to the first full year in the new terminal, as evidenced by operating expenses increasing by $20,654,000, including a $3,133,000 increase in personnel, a $6,407,000 increase in contract management and material and supplies, a $2,292,000 increase in utilities, a $1,033,000 increase in repair and maintenance items, and a $6,351,000 increase in deprecation due to the capitalization of the new terminal. In addition, net income decreased due to an increase in interest expense of $18,719,000 in comparison to prior year. In 2005, interest expense was capitalized as part of the cost of the new terminal, which was completed in September 2005.

Capital Assets

Table 3 reflects a summary of capital assets compared to prior years.

Table 3
Capital Assets
September 30, 2007, 2006 and 2005
(000's)

	2007	2006	2005
Land	$127,152	$127,208	$127,208
Construction in progress	62,696	47,209	27,716
Building	328,739	350,031	331,066
Improvements	17,874	18,788	18,071
Equipment	30,784	29,245	27,749
Infrastructure	240,839	236,646	228,427
Subtotal	808,084	809,127	760,236
Less accumulated depreciation	(106,697)	(126,711)	(110,999)
Total	$701,387	$682,416	$649,238

Capital assets increased by $18,971,000 and $33,178,000 in 2007 and 2006, respectively. Significant capital expenses for 2007 were the final capitalization of the new terminal of $7,600,000, the completion of new hangars and Ramp Expansion at Page Field $8,130,000, and improvements to the Page Field North Quad infrastructure $1,116,000. Significant capital expenses for 2006 included $25,100,000 in terminal expenditures and $16,400,000 in runway rehabilitation expenses. The significant decrease in buildings and accumulated depreciation in 2007 was due to the disposal of the old terminal.

Debt Administration

As of September 30, 2007, the Port had $395,232,000 in outstanding debt, a slight decrease of $4,338,000. In July 2004, the Airport entered into a $10,000,000 Line Of Credit Agreement with SunTrust bank to fund various Page Field projects. As of September 30, 2007, the total outstanding amount on this line was $5,432,000.

Table 4
Outstanding Debt
September 30, 2007, 2006 and 2005
(000's)

	2007	2006	2005
Series 2002 Airport Revenue Refunding Bond	$24,800	$24,800	$30,440
Series 2005 Airport Revenue Refunding	37,775	37,775	0
2004 Line of Credit Note	5,432	9,770	3,370
Series 2000A Airport Revenue Bonds	291,155	291,155	291,155
Series 2000B Airport Revenue Bonds	0	0	36,180
Series 1998 Passenger Facility Bonds	36,070	36,070	38,255
Total	$395,232	$399,570	$399,400

Passenger Facility Charges

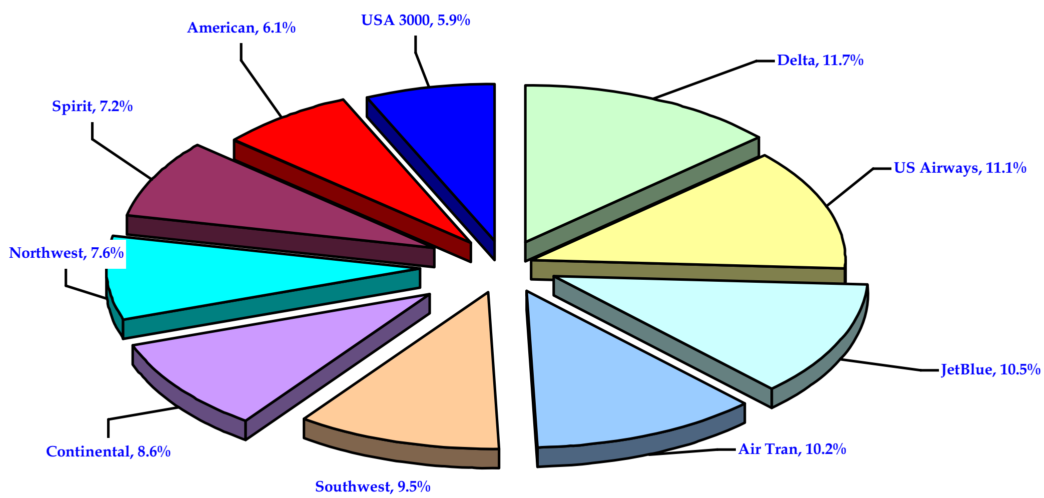
In November 1992, the Port received approval from the Federal Aviation Administration to impose a Passenger Facility Charge (PFC) of $3.00 per eligible enplaned passenger. In 1998, the Port issued PFC Revenue Bonds for $52,225,000 to fund eligible capital improvements and land acquisition. In November 2003, the Port was granted authority to raise the PFC level from $3.00 to $4.50. In November 2005, the Port's PFC application was approved to apply $7,000,000 in PFC's toward the runway rehabilitation project. In addition, on April 18, 2006, the FAA approved an amendment to a previously approved application. This amendment was $25,676,000 for additional modifications to the new terminal. In 2007, $11,520,000 in PFC's were applied toward these projects. The Airport has a total collection authority of $246,663,000 with an estimated collection date of February 2015.

Airport Activities

The total passenger count for fiscal year 2007 was 8,071,654, an increase of nearly seven percent over the prior year. According to the US Department of Transportation Bureau of Transportation Statistics, traffic nationally was up 3.2 percent for the same period. Below is a summary of increased airline service to Southwest Florida International Airport over the past year.

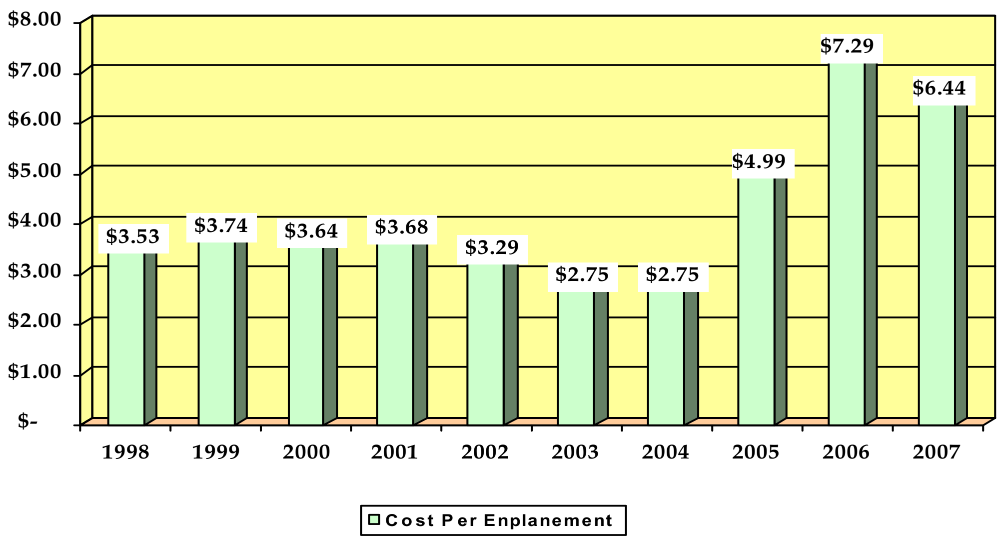
- Air Tran inaugurated daily non stop service to White Plains NY, Boston, Chicago Midway and Detroit.
- Midwest inaugurated year round daily non stop service to Kansas City.
- Air Canada and WestJet provided non stop service to Toronto.
- United started daily service to Washington Dulles.
- LTU started twice weekly Munich service, plus an additional Düsseldorf flight for a total of five flights to Germany.

The following chart exhibits the Total Passenger Market Share for the Top Ten Airlines operating at Southwest Florida International Airport during Fiscal Year 2007.



Airline Rates and Charges

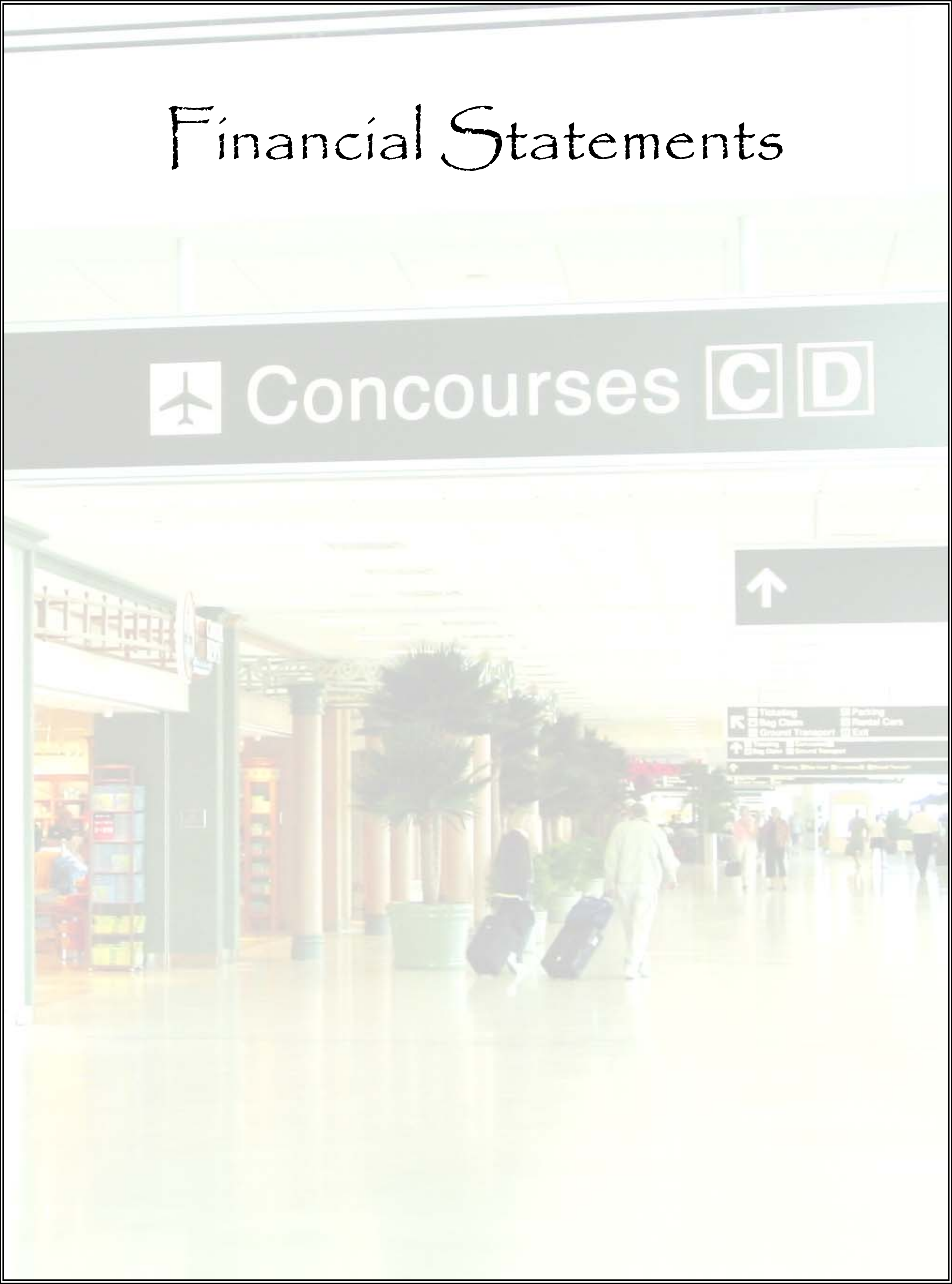
In 1998, the Port amended its *Airport Use Agreement* (the Agreement) with ten airlines, known collectively as the Participating Airlines. The Agreement with the airlines uses a residual rate setting methodology. Each year actual revenues and expenses are compared to budget. Differences between actual and budget are returned annually to the airlines in a form of a refund. The Port has the ability under the Agreement to adjust airline rates and charges at any time throughout the year to ensure adherence to all financial covenants in its bond resolutions. No such adjustments were required during 2007. In fiscal year 2007, the Airlines collectively shared a refund of $4,788,162. In addition, the Airlines collectively received $1,023,251, their pro rata share of the annual debt service coverage. It is typical for the airline industry to measure its costs by its cost per enplaned passenger. Airports use this as a management tool to assess how well they are doing compared to the industry and how effective they are in managing the airport. The following chart shows the cost per enplanement at Southwest Florida International Airport over the past 10 fiscal years. Please note, the increase in 2006 was due to the first full year of operations in the new terminal. The decrease in 2007 was attributable to an increase in non-airline revenues such as parking, terminal concession sales and rental car revenue.



Financial Contact

The Lee County Port Authority's Financial Statements and this analysis are designed to give a general overview to all interested parties. If you should have any questions regarding this report or require additional information, please contact the Lee County Port Authority Finance Department, 11000 Terminal Access Road, Suite 8671, Fort Myers, Florida, 33913.

Financial Statements



LEE COUNTY PORT AUTHORITY
Lee County, Florida
STATEMENTS OF NET ASSETS
As of September 30, 2007 and 2006
(amounts expressed in thousands)

	2007	2006
ASSETS		
Current assets:		
Cash and equity in pooled cash and investments	$73,193	$67,384
Investments		163
Restricted assets	19,064	4,485
Receivables (net):		
Accounts	5,643	5,484
Grants	7,768	7,809
Due from other governments	3	2
Inventories	853	704
Other	2,488	498
Total current assets	109,012	86,529
Noncurrent assets:		
Restricted assets	51,786	51,857
Capital assets (net)	701,387	682,416
Intangible assets	1,650	1,651
Unamortized bond costs	4,458	4,718
Total noncurrent assets	759,281	740,642
Total assets	868,293	827,171
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	9,850	13,954
Accrued liabilities	1,500	346
Refunds and rebates	5,811	2,350
Due to Board of County Commissioners	13	6
Due to other governments	256	235
Customer deposits	756	559
Deferred revenues	303	557
Compensated absences	697	563
Current liabilities payable from restricted assets		
Contracts and accounts payable	200	3,947
Accrued liabilities	10,942	
Due to other governments		63
Notes payable	295	475
Revenue bonds payable	7,627	
Total current liabilities	38,250	23,055
Noncurrent liabilities:		
Compensated absences	322	266
Notes payable	5,137	9,295
Revenue bonds payable	375,547	382,614
Other	130	603
Total noncurrent liabilities	381,136	392,778
Total liabilities	419,386	415,833
NET ASSETS		
Invested in capital assets, net of related debt	343,304	327,225
Restricted for:		
Capital Projects	18,899	15,733
Debt service	8,489	712
Renewal and Replacement	503	500
Unrestricted	77,712	67,168
Total Net Assets	$448,907	$411,338

The notes to the financial statements are an integral part of this statement.

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For the Years Ended September 30, 2007 and 2006

(amounts expressed in thousands)

	2007	2006
OPERATING REVENUES		
User fees	$42,858	$43,900
Rentals	4,085	3,734
Concessions	7,161	6,069
Parking Revenues	14,788	13,819
Rental Car Revenues	16,255	16,114
Miscellaneous	427	228
Total operating revenues	85,574	83,864
Less: Rebates	(1,023)	(2,031)
Net operating revenues	84,551	81,833
OPERATING EXPENSES		
Salaries and wages	17,599	16,402
Employee benefits	8,457	6,406
Contractual services, materials and supplies	19,939	19,218
Utilities	5,906	4,951
Repairs and maintenance	2,808	2,233
Insurance	4,053	2,134
Other	2,075	2,615
Depreciation and amortization	17,446	16,334
Total operating expenses	78,283	70,293
Operating income	6,268	11,540
NON-OPERATING REVENUES (EXPENSES):		
Investment earnings	6,712	5,919
Interest expense	(22,703)	(23,127)
Grants	1	
Gain (loss) on disposal of capital assets	75	682
Passenger facility charges	16,858	15,567
Other revenues	652	4,172
Other expenses	(13)	(14)
Total non-operating revenues (expenses)	1,582	3,199
Income before capital contributions	7,850	14,739
Capital contributions	29,719	25,359
Change in net assets	37,569	40,098
Total net assets- beginning	411,338	371,240
Total net assets - ending	$448,907	$411,338

The notes to the financial statements are an integral part of this statement.

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2007 and 2006

(amounts expressed in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$87,599	$80,974
Cash received from customer deposits	197	282
Other cash receipts	885	4,783
Payments to suppliers	(40,937)	(27,168)
Payments to employees	(24,692)	(22,787)
Net cash provided by operating activities	23,052	36,084
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	1	
Net cash provided by noncapital financing activities	1	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		45,426
Capital contributions	29,760	21,444
Proceeds from passenger facilities charges	16,908	16,084
Additions to capital assets	(40,568)	(58,358)
Principal paid on bonds, loans, and leases	(4,338)	(8,085)
Interest paid on bonds, loans, and leases	(11,356)	(21,983)
Transfer to Refunding Escrow Agent		(38,682)
Proceeds from sale of capital assets	32	74
Net cash used in capital and related financing activities	(9,562)	(44,080)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	27,066	695
Purchase of investments	(26,872)	(1,403)
Interest on investments	6,639	5,842
Net cash provided by investing activities	6,833	5,134
Net increase (decrease) in cash and equity in pooled cash and investments	20,324	(2,862)
Cash and equity in pooled cash and investments at beginning of year	94,539	97,401
Cash and equity in pooled cash and investments at end of year	$114,863	$94,539
Classified as:		
Current assets	$73,193	$67,384
Restricted assets	41,670	27,155
Totals	$114,863	$94,539
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in fair value of investments	$183	$74

The notes to the financial statements are an integral part of this statement.

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2007 and 2006

(amounts expressed in thousands)

	2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$6,268	$11,540
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	17,446	16,334
Other revenues	964	4,783
Other expense		
Increase in accounts receivable	(160)	(628)
Decrease (increase) in inventories	(149)	37
Decrease (increase) in other assets	(1,990)	1,642
Increase in contracts and accounts payable	(4,103)	2,242
Increase in accrued liabilities	1,155	46
Decrease in refunds and rebates	3,462	(577)
Decrease in due to other funds	7	(1)
Increase (decrease) in due to other governments	20	107
Increase in customer deposits	197	281
Increase (decrease) in deferred revenues	(254)	347
(Decrease) increase in compensated absences	189	(69)
Total adjustments	16,784	24,544
Net cash provided by operating activities	$23,052	$36,084

The notes to the financial statements are an integral part of this statement.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lee County (the County) is a political subdivision of the State of Florida. It is governed by an elected Board of County Commissioners (the Board), which is governed by state statutes and regulations. The Lee County Port Authority is a blended component unit of the County and is reported as an enterprise fund in the countywide primary government financial statements. In 1987, the Board authorized the creation of the Lee County Port Authority (the Port Authority) transferring the management and administration of the Department of Airports (including Page Field General Aviation Airport and the Southwest Florida International Airport) to the Port Authority. Although the Board retained ownership of the Port Authority's assets and liabilities, all the assets and liabilities used in the operations of the Port Authority are reflected in these financial statements since the Port Authority has the rights and responsibilities of ownership. The Port Authority was established under authority of Sections 125.01 and 332.03, *Florida Statutes*, Lee County resolution Number 87-8-9, and subsequently, Lee County Ordinance Number 90-02, as amended.

The Board of Port Commissioners was established as the governing body for the Port Authority and consists of the members of the Board of County Commissioners. Also created was an Airports Special Management Committee, whose members were appointed by the Port Commissioners for the administration and management of the Lee County Airports (Airports).

Fund Accounting

The Port Authority uses enterprise fund accounting to report its activities.

Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

As an enterprise fund, the Port Authority records both operating and non-operating revenues and expenses. Operating revenues are those that are obtained from the operations of the enterprise fund that include user fees, rental fees, and concessions. Non-operating revenues are not related to the operations of the enterprise fund and include interest earnings, grants, and passenger facility charges. Operating expenses represent the cost of operations, which includes depreciation. Non-operating expenses are not related to operations such as interest expense.

Measurement Focus

The Port Authority is accounted for on an "economic resources" measurement focus. Accordingly, all assets and liabilities are included on the Statement of Net Assets, and the reported fund equity (total reported assets less total reported liabilities) provides an indication of the economic net worth of the Port Authority. The Statement of Revenues, Expenses, and Changes in Fund Net Assets reports increases (revenues) and decreases (expenses) in total economic net worth.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Port Authority is accounted for by using the accrual basis of accounting. Under this method, revenues are recognized when they are earned; expenses are recognized when they are incurred. Pursuant to Governmental Accounting Standards Board Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Port Authority has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

Assets, Liabilities, and Net Assets

Cash and Equity in Pooled Cash and Investments

The Port Authority considers cash and equity in pooled cash and investments to be cash on hand, demand deposits, highly liquid investments, including those held as restricted assets, with original maturities of three months or less when purchased, and those included in the internal investment pool.

For accounting and investment purposes, the County maintains a cash and investment pool that the Port Authority participates in and is available for use by all funds except those whose cash and investments must be segregated due to legal or other restrictions. Investments within this pool are treated as a demand deposit account. Interest earned on investments in the pool is allocated to the various funds based upon each fund's equity balance in the pool during the allocation period.

Investments

The Port Authority reports all investments at fair value, with the exception of debt investments held in an internal investment pool with a maturity within ninety days of purchase, repurchase agreements, and Local Government Surplus Funds Investment Pool Trust Fund (State Board of Administration (SBA)). All fair valuations are based on quoted market prices. The investment pool and repurchase agreements are stated at amortized cost, which approximates fair value. The fair value of the position in the Local Government Surplus Funds Investment Pool Trust Fund, an external 2a7-like investment pool, is the same as the value of the pool shares.

When both restricted and unrestricted resources are available, restricted resources will be used first for incurred expenses, and then unrestricted as needed.

Accounts Receivable

The accounts receivable of the Port Authority are recorded net of allowance for doubtful accounts.

Inventory

Inventory, consisting primarily of materials and supplies, is stated at cost that approximates fair market value. The "first - in, first - out" method of accounting is used to determine cost.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets. Infrastructure assets are defined as public domain capital assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, runways, and similar assets that are immovable and of value only to the government unit. The threshold for capitalizing property, plant and equipment, and infrastructure are $1,000 and $100,000, respectively. Capital assets are recorded at cost, or estimated historical cost. Contributed assets are recorded at estimated fair market value at the time received. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The ranges of the useful lives are as follows:

Assets	Years
Buildings	30-50
Improvements other than buildings	6-50
Equipment	3-35
Furniture	4-20
Vehicles & rolling stock	3-10
Infrastructure	20-50

Intangible Assets

On December 21, 1995, the Port Authority purchased the assets of Fort Myers Jet Center, Inc. for $1.6 million and has classified as goodwill the excess of cost over the fair market value of assets acquired. The Port Authority is amortizing the goodwill over twenty years.

Software, if material, is classified as an intangible asset and is amortized over its useful life.

Unamortized Premiums, Bond Discounts, and Issuance Costs

Premiums, bond discounts, and issuance costs related to long - term debt are amortized over the life of the debt principally by the effective - interest method. Revenue bonds payable are shown net of unamortized premiums and discounts.

Unamortized Bond Gains or Losses

Gains or losses from debt refundings are reported in the accompanying financial statements as a deduction to bonds payable and are charged to operations using the effective - interest method by amortizing the gain or loss over the shorter of the life of the old bond or the life of the new bond.

Compensated Absences

The Port Authority provides employees a bank of time for paid absences on an annual basis. The bank of time is referred to as Paid Time Off (PTO). Under this policy, employees receive a bank of PTO based on years of continuous service with the Port Authority. All unused time will be bought back annually by the Port Authority.

The Port Authority also maintains a separate vacation policy for 33 members of the Southwest Florida Professional Fire Fighters, Local Chapter 1826, IAFF, Inc. Under this policy, the employees are able to accumulate earned but unused vacation and sick pay benefits, which will be paid to employees upon separation from service if certain criteria are met.

Benefits under both policies, plus their related tax and retirement costs, are classified as compensated absences and are accrued when incurred. This is pursuant to GASB Statement Number 16, *Accounting for Compensated Absences*.

Net Assets

Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted. Invested in capital assets (net of related debt) excludes the portion of debt related to unspent bond proceeds. Restriction of net assets indicates amounts that are limited for a specific purpose. Restricted for debt service is used to segregate resources accumulated for current or future debt service payments.

Use of Estimates

The preparation of the financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

NOTE II. RECEIVABLES

At September 30, 2007 and 2006, accounts receivable consisted of the following (dollars in thousands):

		Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
2007	Unrestricted	$5,893	($250)	$5,643
	Restricted	2,172		2,172
	Total	$8,065	($250)	$7,815
2006	Unrestricted	$5,733	($249)	$5,484
	Restricted	2,222		2,222
	Total	$7,955	($249)	$7,706

NOTE III. RESTRICTED ASSETS

At September 30, 2007 and 2006, restricted assets consisted of the following (dollars in thousands):

	2007	2006
Cash and equity in pooled cash and investments	$22,588	$27,155
Cash and cash equivalents with fiscal agent	19,082	
Investments	26,874	26,900
Receivables (net):		
Accounts	2,172	2,222
Accrued interest	134	65
Total	$70,850	$56,342

NOTE IV. CASH, EQUITY IN POOLED CASH AND INVESTMENTS, AND INVESTMENTS

As of September 30, 2007 and 2006, the Port Authority had the following deposits, investments, and maturities (amounts in thousands):

2007

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$280			N/A
Cash with fiscal agent	N/A	19,082			N/A
Demand deposits	N/A	608			N/A
State Board of Administration Investment Pool	34 days	94,893			Unrated
U.S. Treasury Note	10/31/2007	657			N/A
Federal Home Loan Bank	2/28/2008	26,217	N/A	N/A	AAA
Total		$141,737			

2006

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$270			N/A
Demand deposits	N/A	446			N/A
State Board of Administration Investment Pool	32 days	94,002			Unrated
U.S. Treasury Bill	10/26/2006	708			N/A
Federal National Mortgage Association	3/7/2007	26,013	12/7/2006	Quarterly	AAA
Federal National Mortgage Association	3/7/2007	163	12/7/2006	Quarterly	AAA
Total		$121,602			

Credit Risk

The Port Authority adheres to the Board of County Commissioners' (the Board) Investment Policy (the Policy), which limits credit risk by restricting authorized investments to the following: Direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government; U.S. Government sponsored Corporation/ Instrumentalities; U.S. Government Agencies; The Florida Local Government Surplus Funds Trust Fund (SBA); Interest-bearing time deposits or savings accounts in banks organized under the laws of Florida, in national banks organized under the laws of the United States and doing business and situated in Florida; Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided their portfolio is limited to United States Government obligations and to repurchase agreements fully collateralized by such United States Government obligations; Repurchase agreements with any primary brokers/dealers collateralized by direct obligations of United States, or U.S. government sponsored corporation/ instrumentalities or U.S. government agencies; Bonds, notes or obligations of any state of the United States, any municipality, political subdivision, agency or authority of Florida which are exempt from federal income taxation which are rated by any nationally recognized rating agency for municipal bonds in any of the two highest classifications; SEC registered, no-load money market mutual funds whose portfolios consist of tax exempt securities and repurchase agreements, whose shares of the mutual fund must be rated in the highest category by a nationally recognized rating service; Florida Local Government Investment Trust (FLGIT); and SEC registered money market mutual funds with average portfolio maturities under 120 days, whose portfolios consist of U.S. Government securities and repurchase agreements secured by such securities.

The Policy requires that collateral for overnight and term repurchase agreements must maintain a minimum price of 101 percent on U.S. Treasuries and 102 percent on Agencies and Instrumentalities not to exceed five (5) years, and must be "marked to market" on a weekly basis. The Policy also requires that the obligations of any state or municipality be rated by at least one of the nationally recognized rating agencies in any one of the two (2) highest classifications, and that investments in money market mutual funds must be rated in the highest category by a nationally recognized rating service. The SBA is an investment pool not rated by a nationally recognized statistical rating agency. All credit ratings indicated in the previous table are Standard & Poor's (S&P) ratings.

Custodial Credit Risk

The Policy requires that bank deposits be secured as provided by Chapter 280, *Florida Statutes,* and that the banks must be fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) and approved by the State Treasurer as a public depository. At September 30, 2007, all of the Port Authority's bank deposits were in qualified public depositories.

Interest Rate Risk

The Policy requires an average minimum dollar amount equivalent to eight weeks of expenditures shall be held in a liquid investment, and securities will not be directly invested in or accepted as collateral that have a maturity date greater than five (5) years from the settlement date.

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition for the County in whole in order to control concentration of credit risk. The Policy allows 100 percent of the portfolio to be invested in United States Treasuries/Agencies, 75 percent to be invested in SBA, 50 percent to be invested in repurchase agreements, 25 percent to be invested in mutual funds, and 20 percent to be invested in Certificate of Deposits or FLGIT. No more than 25 percent of the total portfolio can be invested with one Investment Company.

The County's total investment portfolio at September 30, 2007 and 2006, was $1,581,746,000 and $1,535,234,000, respectively. The portion of the Port Authority's portfolio invested in Federal instrumentalities is detailed as follows, at September 30, 2007 and 2006:

2007

Issuer	Percent of Total Portfolio
Federal Home Loan Bank	1.84%

2006

Issuer	Percent of Total Portfolio
Federal National Mortgage Association	1.90%

Reconciliation of cash and cash equivalents, and investments from the schedule of deposits and investments to the financial statements:

2007

Current:	
Cash and cash equivalents	$73,193
Restricted:	
Cash and cash equivalents	22,588
Cash with fiscal agent	19,082
Investments	26,874
Total	$141,737

2006

Current:	
Cash and cash equivalents	$67,384
Investments	163
Restricted:	
Cash and cash equivalents	27,155
Investments	26,900
Total	$121,602

NOTE V. CAPITAL ASSETS

Increases and decreases in capital asset activity include transfers. Capital asset activity for the fiscal years ended September 30, 2007 and 2006, was as follows (dollars in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2007				
Capital assets not being depreciated:				
Land	$127,208		($56)	$127,152
Construction in progress	47,209	$35,727	(20,240)	62,696
Total capital assets not being depreciated	$174,417	35,727	(20,296)	189,848
Capital assets being depreciated:				
Buildings	350,031	11,353	(32,645)	328,739
Improvements other than buildings	18,788	2,417	(3,331)	17,874
Machinery and equipment	29,245	2,579	(1,040)	30,784
Infrastructure	236,646	4,327	(134)	240,839
Total capital assets being depreciated	634,710	20,676	(37,150)	618,236
Less accumulated depreciation for:				
Buildings	48,637	6,943	(32,645)	22,935
Improvements other than buildings	6,550	1,048	(3,330)	4,268
Machinery and equipment	13,149	1,934	(825)	14,258
Infrastructure	58,375	6,995	(134)	65,236
Total accumulated depreciation	126,711	16,920	(36,934)	106,697
Total capital assets being depreciated, net	507,999	3,756	(216)	511,539
Capital assets, net	$682,416	$39,483	($20,512)	$701,387

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2006				
Capital assets not being depreciated:				
Land	$127,208			$127,208
Construction in progress	27,716	$48,613	($29,120)	47,209
Total capital assets not being depreciated	154,924	48,613	(29,120)	174,417
Capital assets being depreciated:				
Buildings	331,066	18,965		350,031
Improvements other than buildings	18,071	717		18,788
Machinery and equipment	27,749	1,691	(195)	29,245
Infrastructure	228,427	8,219		236,646
Total capital assets being depreciated	605,313	29,592	(195)	634,710
Less accumulated depreciation for:				
Buildings	42,202	6,435		48,637
Improvements other than buildings	5,661	965	(76)	6,550
Machinery and equipment	11,416	1,923	(190)	13,149
Infrastructure	51,720	6,656	(1)	58,375
Total accumulated depreciation	110,999	15,979	(267)	126,711
Total capital assets being depreciated, net	494,314	13,613	72	507,999
Capital assets, net	$649,238	$62,226	($29,048)	$682,416

NOTE V. CAPITAL ASSETS (continued)

Interest costs related to construction are capitalized. In addition, earnings from the investment of tax-exempt bond proceeds earmarked for construction are also capitalized. Net interest expense capitalized for the years ended September 30, 2007 and September 30, 2006, was $399,000 and $326,000, respectively.

Minimum Future Rentals

The Port Authority leases certain facilities to vendors at the Southwest Florida International Airport. Such agreements are short-term in nature and are accounted for as operating leases. Certain leases contain both fixed minimum rentals and contingent rentals based on the vendor's agreement. Contingent rental revenues arise from a percentage of the lessees' gross revenue.

At September 30, 2007, minimum future rentals of operating leases were as follows (dollars in thousands):

Fiscal Year(s)	Amount
2008	$21,338
2009	19,615
2010	19,475
2011	14,225
2012	14,281
Total minimum future revenue	$88,934

For the years ended September 30, 2007 and 2006, rental revenue included $7,375,000 and $6,758,000, respectively, in contingent rentals.

Substantially all of the Port Authority's property is used in leasing activities with either airlines or other vendors.

NOTE VI. LONG-TERM DEBT

Revenue Bonds

Revenue bonds payable at September 30, 2007 and 2006, consisted of the following:

- Series 1998 Passenger Facility Charge Revenue and Refunding Bonds, for $52,225,000 at interest rates ranging from 3.6 percent to 5 percent (effective interest rate of 5.21 percent), collateralized by a lien on and a pledge of the passenger facility charge revenues. The outstanding balance at September 30, 2007 and 2006, was $36,070,000 and $36,070,000, respectively.

- Series 2000A (AMT) Airport Revenue Bonds, for $291,155,000 at interest rates ranging from 5.4 percent to 6.125 percent (effective interest rate of 6.16 percent), collateralized by a lien on and a pledge of the net revenues of the Southwest Florida International Airport (SWFIA). The outstanding balance at September 30, 2007 and 2006, was $291,155,000 and $291,155,000, respectively.

- Series 2002 Airport Revenue Refunding Bonds, for $37,065,000 at interest rates ranging from 2.0 percent to 5.0 percent (effective interest rate of 5.59 percent), collateralized by a lien on and a pledge of the net revenues of the SWIA. The outstanding balance at September 30, 2007 and 2006, was $24,800,000 and $24,800,000, respectively.

- Series 2005 Airport Revenue Refunding Bonds, for $37,805,000 at interest rates ranging from 3.5 percent to 5 percent (effective interest rate of 5.642 percent), collateralized by a lien on and a pledge of net revenues of the SWFIA. The outstanding balance at September 30, 2007 and 2006, was $37,775,000 and $37,775,000, respectively.

The total revenue bonds payable at September 30, 2007 and 2006, were $389,800,000 and $389,800,000, respectively.

The annual debt service requirements for revenue bonds at September 30, 2007, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2008	$8,140	$21,700	$29,840
2009	8,515	21,343	29,858
2010	8,855	20,980	29,835
2011	9,240	20,587	29,827
2012	9,865	20,117	29,982
2013-2017	58,330	91,293	149,623
2018-2022	63,935	73,298	137,233
2023-2027	74,765	54,015	128,780
2028-2032	99,585	28,376	127,961
2033-2037	48,570	2,522	51,092
Total	$389,800	$354,231	$744,031

The following is a summary of bond transactions of the Port Authority for the years ended September 30, 2007 and 2006 (dollars in thousands):

	2007	2006
Beginning balance	$389,800	$396,030
Additions		37,805
Reductions		(44,035)
Bonds payable at end of fiscal year	389,800	389,800
Less unamortized discount	(2,516)	(2,639)
Less unamortized accounting loss	(4,110)	(4,547)
Bonds payable at end of fiscal year, net	$383,174	$382,614

Bond Resolutions

The Airport Revenue Bonds, Series 2000A (AMT), Airport Revenue Refunding Bonds, Series 2002, and Airport Revenue Refunding Bonds, Series 2005, are collateralized by a lien on and a pledge of the net revenues from the operation of SWFIA.

The Port Authority has agreed to maintain such fees and rates to provide revenues sufficient to pay all current expenses of SWFIA and the greater of 125 percent of the principal and interest payments due in the next succeeding fiscal year or 100 percent of the principal and interest payments due in the next succeeding fiscal year plus any other required payments under the bond resolutions.

The Passenger Facility Charge Revenue and Refunding Bonds, Series 1998, are payable from and collateralized by a lien on and a pledge of the passenger facility charge (PFC) revenues. PFC revenues consist of all monies received by the Port Authority from PFC's and all interest earned on such monies. PFC's are discussed in Note XI.

The resolutions for the following bonds established certain accounts and determined the order in which certain revenues are to be deposited into those accounts. In addition, there are various other covenants established by the official statements and resolutions, including such items as debt service coverage, reporting requirements, and maintenance of facilities. Management believes that it has complied, in all material respects, with these covenants. All required balances at year - end were maintained on the following issues:

Revenue bonds:
- Passenger Facility Charge Revenue and Refunding Bonds, Series 1998
- Airport Revenue Bonds, Series 2000A
- Airport Revenue Refunding Bonds, Series 2002
- Airport Revenue Refunding Bonds, Series 2005

Defeased Bonds

In prior years, the Port Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Port Authority's financial statements.

The amount of defeased bonds outstanding at September 30, 2007 and 2006, consisted of the following (dollars in thousands):

	2007	2006
Airport Revenue Bonds, Series 1980	$ 9,355	$11,990
Airport Revenue Bonds, Series 1983	6,875	8,780
Airport Revenue Bonds, Series 2000B	36,180	36,180
Total outstanding	$ 52,410	$ 56,950

Variable Debt

The Port Authority has entered into a $10,000,000 line of credit with a commercial bank to finance certain airport-related capital projects at an interest rate of 117 percent of London Interbank Offered Rates (LIBOR). Effective January 1, 2006, a more favorable interest rate was negotiated of 67 percent of LIBOR plus 73 basis points, which was 4.56 percent as of September 30, 2007. To date the Port Authority has drawn $10,000,000 from the line of credit. Principal is payable semi-annually beginning June 1, 2006 and interest is payable monthly on the unpaid balance until final maturity on December 1, 2020. The line of credit is collateralized by a lien on and a pledge of the net revenues of Page Field General Aviation Airport. The outstanding balance at September 30, 2007 and 2006, was $5,432,000 and $9,770,000, respectively.

The annual debt service requirements for the Port's variable debt at September 30, 2007, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2008	$295	$240	$535
2009	305	226	531
2010	325	212	537
2011	340	196	536
2012	355	181	536
2013-2017	2,075	634	2,709
2018-2022	1,737	132	1,869
Total	$5,432	$1,821	$7,253

The following is a summary of variable debt transactions of the Port Authority for the years ended September 30, 2007 and 2006 (dollars in thousands):

	2007	2006
Beginning balance	$9,770	$3,370
Additions (Deletions)	(4,338)	6,400
Variable debt payable at end of fiscal year	$5,432	$9,770

Operating Leases

The Port Authority is currently committed to various operating leases with terms in excess of one year. The future minimum rental payments as of September 30, 2007, were as follows (dollars in thousands):

Fiscal Year	Amount
2008	$612
2009	618
2010	617
2011	577
2012	563
Total minimum payments required	$2,987

The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2007 and 2006, were $609,000 and $534,000, respectively.

Compensated Absences

The following is a summary of compensated absences transactions for the Port Authority for the years ended September 30, 2007 and 2006 (dollars in thousands):

	2007	2006
Beginning balance	$829	$898
Additions	2,074	1,804
Reductions	(1,884)	(1,873)
Compensated absences payable at end of fiscal year	$1,019	$829

NOTE VII: SUPPLEMENTAL INFORMATION

The County has outstanding revenue bonds that are financed by Southwest Florida International Airport revenues, and an outstanding line of credit that is financed by Page Field General Aviation Airport revenues. Both activities are accounted for in a single fund (Lee County Port Authority). Summary financial information for the Southwest Florida International Airport and Page Field General Aviation Airport are presented as follows (dollars in thousands).

	Southwest Florida International Airport		Page Field General Aviation Airport	
	2007	2006	2007	2006
Condensed Statements of Net Assets				
Assets				
Current assets	$76,859	$61,629	$4,147	$5,325
Restricted assets	52,253	39,224		721
Capital assets	610,225	617,427	40,799	31,388
Other assets	5,919	6,144	26	29
Total assets	745,256	724,424	44,972	37,463
Liabilities				
Current liabilities	15,161	10,265	1,985	721
Current liabilities payable from restricted assets	18,535	4,920	295	1,195
Noncurrent liabilities	342,271	347,680	5,137	9,295
Total liabilities	375,967	362,865	7,417	11,211
Net assets				
Invested in capital assets, net of related debt	293,256	307,612	35,366	21,618
Restricted	13,033	1,227		
Unrestricted	63,000	52,720	2,189	4,634
Total net assets	$369,289	$361,559	$37,555	$26,252
Condensed Statements of Revenues, Expenses, and Changes in Net Assets				
Operating revenues				
User fees	$37,220	$38,250	5,638	$5,649
Rentals	1,688	1,682	2,397	2,052
Concessions	38,145	35,931	59	70
Miscellaneous	260	228	168	
Less: Rebates	(1,024)	(2,031)		
Total operating revenues	76,289	74,060	8,262	7,771
Operating expenses				
Depreciation	16,112	15,302	1,334	1,032
Other operating expenses	52,620	46,907	7,996	6,974
Total operating expenses	68,732	62,209	9,330	8,006
Operating income (loss)	7,557	11,851	(1,068)	(235)

NOTE VII: SUPPLEMENTAL INFORMATION (continued)

	Southwest Florida International Airport		Page Field General Aviation Airport	
	2007	2006	2007	2006
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (continued)				
Non-operating revenues (expenses)				
Investment earnings	4,964	4,416	209	255
Interest expense	(20,848)	(21,163)		
Other non-operating	490	4,231	225	609
Total non-operating revenues (expenses)	(15,394)	(12,516)	434	864
Income (loss) before capital contributions	(7,837)	(665)	(634)	629
Capital Contributions	14,364	8,617	8,073	346
Transfers	1,203	(1,893)	3,864	
Change in net assets	7,730	6,059	11,303	975
Beginning net assets	361,559	355,500	26,252	25,277
Ending net assets	$369,289	$361,559	$37,555	$26,252
Condensed Statements of Cash Flows				
Net cash provided (used) by:				
Operating activities	$26,846	$27,876	$1,573	$1,631
Noncapital financing activities	(847)	(521)	3,863	
Capital and related financing activities	(10,397)	(40,911)	(9,415)	(40)
Investing activities	4,613	3,623	408	264
Net increase (decrease)	20,215	(9,933)	(3,571)	1,855
Beginning cash and cash equivalents	63,762	73,695	5,540	3,685
Ending cash and cash equivalents	$83,977	$63,762	$1,969	$5,540

NOTE VIII. RETIREMENT PLAN

Plan Description and Provisions

The Port Authority participates in the Florida Retirement System (FRS), a cost - sharing, multiple - employer, public employee retirement system, which covers substantially all of the full time and part time employees. The FRS is noncontributory and is totally administered by the State of Florida. Benefits under the plan vest after six years of service. Employees who retire at or after age 62, with six years of credited service, are entitled to an annual retirement benefit, payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits. These benefit provisions and all other requirements are established by Chapters 112 and 121, *Florida Statutes.*

Pension costs for the Port Authority as required and defined by State statute ranged between 10 percent and 21 percent of gross salaries for fiscal years 2007 and 2006. For the fiscal years ended September 30, 2007, 2006, and 2005, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated $2.2 million, $1.8 million, and $1.5 million respectively, which represents 13 percent, 11 percent, and 10 percent of covered payroll.

A copy of the FRS's annual report can be obtained by writing to the Division of Retirement, PO Box 9000, Tallahassee, Florida 32315 - 9000, or by calling (850) 488 - 5706.

Other Post Employment Benefits

The Port provides post retirement health care benefits, through participation in a self-funded insurance plan, to all employees who retire from the Port. In accordance with Chapter 110.123, *Florida Statutes,* the Port is required to provide group health care at cost to all retirees and currently pays 50 percent of the portion of the premium for the retiree to participate in the Plan. The County has the authority to establish and amend the benefit provisions of the plan. The County adopted Governmental Accounting Standards Board No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as of October 1, 2006. Liabilities and expenses related to these benefits totaling $1,070,000 are reported in this report as well as the proprietary financial statements of the County.

NOTE IX. RISK MANAGEMENT

The Port Authority is a member of Public Risk Management of Florida (PRM), a local government liability risk pool. PRM administers insurance activities relating to property, crime, general, automobile, and public officials' liability, workers' compensation, and vehicle physical damage. PRM absorbs losses up to a specified amount annually and purchases excess and other specific coverages from third - party carriers.

PRM assesses each member its pro - rata share of the estimated amount required to meet current year losses and operating expenses. If total member assessments (premiums) do not produce sufficient funds to meet its obligations, PRM can make additional assessments within predetermined limits. For the fiscal years ended September 30, 2007 and 2006, the Port Authority was assessed $1,796,000 and $1,625,000, respectively. There were no additional assessments for fiscal years 2007 and 2006. In years prior to fiscal year 1988, the Port Authority, through Lee County, was self - insured for the coverages obtained through PRM.

The Port Authority participates in the County's self-insurance program for group medical and group dental coverage. Funding for this program is generated by charges to the operating departments based on management's annual estimates of claim loss funding and administration/operating costs. For the fiscal years ended September 30, 2007 and 2006, the Port Authority was charged $3,598,000 and $3,075,000, respectively, for the insurance program.

The Port Authority is exposed to other various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Insurance coverage for such losses is purchased from third - party carriers. For the fiscal years ended September 30, 2007 and 2006, the Port Authority paid $264,000 and $510,000, respectively, to third-party carriers. Settled claims have not exceeded insurance coverage in any of the past three years.

NOTE X. COMMITMENTS AND CONTINGENCIES

At September 30, 2007 and 2006, the Port Authority had in process various construction contracts totaling $60,595,000 and $284,199,000, respectively. Costs on these contracts as of September 30, 2007 and 2006, totaled $51,402,000 and $263,745,000 respectively, including retainage payable of $3,207,000 and $5,460,000, respectively.

The Port Authority is currently receiving, and has received in the past, grants that are subject to special compliance audits by the grantor agency, which may result in disallowed expense amounts. These amounts constitute a contingent liability of the Port Authority. The Port Authority does not believe any contingent liabilities to be material.

The Port Authority currently prepares rebate calculations on all debt subject to arbitrage per the United States Department of the Treasury Regulations, Section 1.148, and the Internal Revenue Service Code of 1986. Rebates, if any, are paid to the Internal Revenue Service every fifth year after the year of issuance. Within the five-year period, any positive arbitrage (liability) can be offset by any negative arbitrage (non-liability). These rebates constitute a liability of the Port Authority, which are reported as other liabilities.

NOTE XI. PASSENGER FACILITY CHARGE

On August 31, 1992, the Federal Aviation Administration (FAA) approved the imposition of a $3.00 passenger facility charge (PFC) per enplaned passenger to begin on November 1, 1992, and to end at the earlier of October 31, 2022, or the collection of $244,799,000 in passenger facility charges and interest. The funds are restricted for use on projects approved by the FAA. The funds are collected by the airlines when the tickets are sold and remitted to the Port Authority net of a collection fee, which was increased from eight cents ($.08) to eleven cents ($.11) per passenger facility charge on May 1, 2004. Amounts shown as revenue are net of the collection allowance.

On August 14, 2003, the FAA approved an amendment to the original application and increased the PFC collection from $3.00 to $4.50 per passenger, effective November 1, 2003. On March 6, 2006, the FAA approved the Port Authority to impose and use $6,932,692 in PFC revenue for the rehabilitation of runway 6/24 and Taxiway A. In addition, on April 18, 2006, the FAA approved an amendment to a previously approved application. This amendment was $25,676,000 for additional modifications to the Midfield Terminal. As a result, the total collection also decreased from $260,837,000 to $246,663,000, with an estimated collection date of February 2015.

NOTE XII. AIRLINE USE AGREEMENTS

Participating Airlines

The Port Authority currently has long - term leases and a participating use agreement (use agreement) with ten airlines (participating airlines) which expire on December 31, 2008. Under the use agreement, landing fees are calculated so that the aggregate landing fees of the participating airlines and all other operating revenues of the Port Authority total to at least the sum of operating expenditures, 1.25 times annual debt service, and certain other payments.

Each participating airline pays fees and charges under its use agreement as follows: (a) landing fees; (b) a terminal exclusive use fee based upon the square footage leased; (c) a gate area charged for the use of passenger hold rooms and the aircraft parking apron; (d) a baggage claim area charge; (e) a cargo building use fee based upon the square footage leased; (f) security charges; and (g) overuse charges.

Under the use agreement, on or before October 1 of each year, the Port Authority calculates the landing fee rates and other use fees for the upcoming fiscal year based upon estimates of anticipated operating revenues, operating expenses, debt service, and debt service coverage and advises the participating airlines of such rates and charges. At any time during the fiscal year, the Port Authority may on its own motion, or at the request of the participating airlines, adjust such charges to better approximate the final landing fees and other charges for the fiscal year. Landing fees and other charges are payable by the participating airlines monthly. Within ninety days of the close of the fiscal year, the Port Authority computes the final rates and charges for the fiscal year based upon actual results of activity, operating revenues, operating expenditures, debt service, and debt service coverage and either bills the airlines for any additional charges due or refunds any overpayments.

The use agreement grants each participating airline (a) the preferential, but not exclusive, right to use assigned gate positions and aircraft parking locations at the Airport Terminal Building; (b) the exclusive right to use assigned ticket counters, as well as operations and office space in the Airport Terminal Building; (c) exclusive use of assigned space within the Airline Cargo Building; and (d) the right to use in common with other airlines the baggage claim area.

Within ninety days of the fiscal year end, the participating airlines are paid a portion of the debt service coverage (the rebate). Each participating airline is paid a percentage of the rebate based upon the airline's pro - rata share of the fees paid by all participating airlines during the fiscal year.

Under the use agreement, a majority - in - interest (MII) of the participating airlines must approve any capital expenditure in excess of the capital amount (currently $100,000) or capital expenditures which when totaled together in any fiscal year exceed the annual limitation (currently $500,000). A MII must also approve any capital expenditure proposed to be financed in whole or in part with revenue bonds secured by a pledge of general airport revenues. A MII is defined as a majority of the participating airlines which when added together account for more than fifty percent of all fees paid by the participating airlines.

Under these agreements, the participating airlines paid the Port Authority $23,786,000 and $25,622,000 in fiscal years 2007 and 2006, respectively. These amounts are net of refunds and rebates which were $4,788,000 and $1,023,000, respectively in fiscal year 2007, and $318,000 and $2,031,000, respectively in 2006.

Nonparticipating Airlines

The Port Authority has also entered into short - term use agreements or permits with the airlines serving the airport other than the participating airlines. Nonparticipating airlines are assessed fees no less than those paid by the participating airlines and do not share in any rebates.

Airline Bankruptcies

Currently, there are no airlines serving the airport that are under bankruptcy protection.

NOTE XIII. LITIGATION

The Port Authority is involved in ongoing litigation arising in the ordinary course of operations. It is of the opinion of management and legal counsel that the outcome of this litigation will not materially affect the financial position of the Port Authority.

NOTE XIV. SUBSEQUENT EVENTS

On November 29, 2007, the State Board of Administration (SBA) put a hold on any withdrawals of amounts invested with the SBA by cities and counties. This action was taken to prevent a further deterioration in the overall investment portfolio as a result of significant amounts of withdrawals that had taken place by cities and counties upon the disclosure that the SBA had exposure in mortgage backed securities which had the potential for significant declines in market value as a result of the sub-prime mortgage crisis taking place within the United States.

On December 6, 2007, the SBA classified all amounts invested by local governments with the SBA into two distinct funds. Pool A was allocated 86 percent of the amounts invested by each respective local government and became withdrawable on that date. It is expected that this fund will continue to permit deposits and withdrawals and will be backed by high quality investments. Pool B received 14 percent of the amounts and is secured by the underlying troubled investments. No deposits or withdrawals are permitted to Pool B until the underlying securities stabilize or mature. The SBA is in the process of addressing the quality of these investments and seeking in some cases renegotiation of some of the terms of these investments.

On December 6, 2007, the Port had $18,568,000 invested in the SBA of which $3,064,000 was transferred to the Pool B fund. Based on the representations provided by the SBA, the Port believes that the carrying value of the amounts in the Pool B fund will be recoverable over the near future.

LEE COUNTY PORT AUTHORITY
Southwest Florida International Airport
PASSENGER FACILITY CHARGE REVENUE REPORT
For Fiscal Year Ending September 30, 2007
(unaudited)

Total Enplaned Passengers	Eligible Enplaned Passengers	Net PFC Cash Collections	Interest Income	Total PFC Revenue
4,061,936	3,997,401	$16,908,300	$717,082	$17,625,382

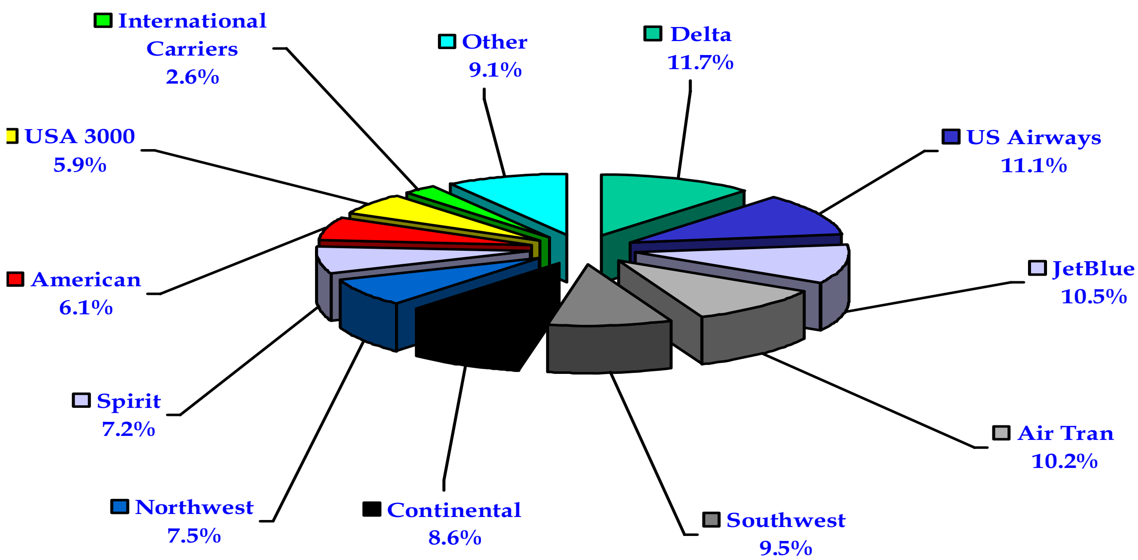
Southwest Florida International Airport
ESTIMATED DEBT SERVICE COVERAGE
Series 1998 Bonds
For Fiscal Year Ending September 30, 2007
(unaudited)

Actual PFC Revenues	Actual 2007 PFC debt service requirements	Actual debt service factor
$17,625,382	$4,064,560	4.34

Source: Lee County Port Authority

LEE COUNTY PORT AUTHORITY
Airline Market Share and Passenger Information
For the Fiscal Year Ended September 30, 2007
(unaudited)

Total passenger traffic is shown below for fiscal year 2007 showing market share for each major airline at Southwest Florida International Airport.



Airline	2007	2006	Change from 2006	% Change from 2006
Delta	946,046	962,324	(16,278)	-1.69%
US Airways	899,234	881,876	17,358	1.97%
JetBlue	847,967	818,411	29,556	3.61%
Air Tran	821,916	520,527	301,389	57.90%
Southwest	764,334	668,788	95,546	14.29%
Continental	694,051	635,936	58,115	9.14%
Northwest	609,831	616,104	(6,273)	-1.02%
Spirit	578,209	402,596	175,613	43.62%
American	490,491	455,847	34,644	7.60%
USA 3000	473,694	433,114	40,580	9.37%
International Carriers	207,764	184,168	23,596	12.81%
Other*	738,117	973,334	(235,217)	-24.17%
Total	8,071,654	7,553,025	518,629	6.87%

* Represents all domestic carriers with less than a 3% market share.

LEE COUNTY PORT AUTHORITY

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